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## Understanding a Credit Supply Constraints among Small Scale Enterprises in Kano State, Nigeria: A Phenomenological Approach

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### Abstract

This paper examines factors that constrain small scale enterprises to access credit from microfinance banks (MFBs) and possible measures to tackle these constraints. It purposively sampled experts in the field of microfinance lending to respond on this issue through an interview from eight MFBs operating within the three political zones of Kano state; Kano central, Kano north and Kano south. As a result, four major constraints were identified which include – transaction cost constraint, internal constraint, socio-cultural constraint and environmental policy constraint – as being the key factors constraining small scale enterprises' ability to access credit. Though findings show different factors that constrain credit supply, but socioeconomic factor is prevalent according to participants' response. The paper recommends strategies to address this issue to increase small scale business's credit market participation.

**Keywords:** Credit supply, small scale enterprises, phenomenological approach

### 1. Introduction

Small scale (borrowers) enterprises tend to receive less attention from most formal financial institutions due to regulatory restrictions within which they operate and the observed socioeconomic and demographic characteristics of these borrowers, associated with high costs of transaction, asymmetric information and uncertainty (World Bank, 2008). As a result, the attention of both policy makers and researchers especially in developing countries and necessitated the need to device means to provide these enterprises with enough funds. This gave birth to the microfinance program; which was introduced to serve small scale borrowers through bank and nonbank institutions using a specialized character-based approach to ensure that those poor firms and households who are excluded from conventional banking services are adequately equipped with adequate credit to finance their activities (Areetey,

2008). However, enterprises considered in this paper are the small businesses that constitute majority of private sector employment that create jobs and generate income to low-income earners leading to economic growth and social stability in most developing countries. But despite their contributions to socioeconomic development, they have been constrained access to credit and financial services provided by conventional financial institutions. These enterprises represent those poor firms and households who are farmers, petty traders, street hawkers and various small services providers that own, manage and employ small number of people, and whose survival of their business relies on self-generated income (Magboul, 2016).

### 2. Methods and Methodology

#### 2.1 Type of Research

Type of research employed in this study is qualitative research. The study intended to gain an understanding of microfinance bank credit officials' lived experience of the factors that constrain this sector to access credit through semi-structured interview in Kano state, Nigeria. Besides it examined the "how" and "why" through an interview with few experts in the field.

#### 2.2 Sampling Method

A purposive sampling method was used to achieve the intent of this paper. A list of microfinance banks operating in the 44 local governments of Kano state was acquired and 8 banks were selected for the interview. Before conducting the interview a consent letter was sent to each of the 8 selected participants along with a sample copy of the interview questionnaire as well as the protocol of the researcher. Approval was obtained through the SMS, phone calls, and email and interview date, time and venue were fixed. Data was collected



through face to face interview during operating hours from Mondays to Fridays at their respective offices. Albeit, of the 8 participants selected for the interview, only one of them allowed the researcher to audiotape his voice during the interview, for the reason that their headquarters prevents them to conduct an interview using any recording device without their consent.

### 2.3 Participants

The participants in this study came from three political zones of Kano state – Kano central, Kano north and Kano south. The zones were chosen because of the recognition of different socio-economic conditions prevailing in each zone that is relevant to the study and also as it fits the time frame and resources of the researcher. Sampled participants were asked for their consent and approval to be interviewed. The opinion of experts was sought regarding the instrument used in the interview.

**Table 2.1**

Demography	No. of Participants
Age:	
25 – 34	5
34 – 44	2
45 – 60	1
Gender:	
Male	6
Female	2
Education level:	
Postgraduate	1
BSC/HND	5
High school certificate	2
Job title:	
Credit and marketing unit head	8

Author's data survey, 2017

### 3. Data Analysis

In exploring experience of participants on credit constraints, data collected was used for the analysis and major themes were identified. According to Creswell (2014) there are four steps applicable to qualitative phenomenological study which include; raw data arrangement, classifying divergent perspective, analyzing emerging themes to find data meanings and preparation of final report. The raw data was coded and reduced into manageable

### 2.4 Interview Questionnaire

Statements that are perceived to be factors that influence microfinance bank's decisions to approve/reject credit application were presented in the material.

### 2.5 Participant's Demography

Participants' demographic information was provided in the questionnaire which included their age, gender, and education level and job title. Table 2.1 presents summary of demographic information of the study participants. Five participants (63%) aged between 25-34, two 35-44 and one 45-60. About 6 participants (70%) are males while only two (25%) are females. With regard to education level of participants, one has postgraduate, five (63%) hold BSC/HND while two get high school certificate. All participants were credit and marketing unit heads of their respective banks.

size thereby organizing it into categories to create themes (Neuman, 2003). Similarly, Cooper & Schindler (2010) emphasized on coding as it helps in the process of data interpretation in the study conclusion. In this study, a van Kaam method modified by Moustakas (1994) was followed to analyse data from responses of participants. Steps used included horizontalization, reduction and elimination, data clustering, textural descriptions and validity.



### 3.1 Horizontalization

Priest (2002) described listing of all relevant expression and performance of responses at initial stage in phenomenological study as horizontalization. Similarly, Moustakas (1994) illustrated the importance of being receptive to participant's statement and give equal consideration to each statement. This study treated every statement relevant to the topic equally and did not omit any statement from the data.

### 3.2 Reduction and Elimination

Following Moustakas (1994), information that are not relevant were eliminated. In a reduction process, any expression found containing insufficient information expressed by participants was eliminated (Priest, 2002). Reduction ensures ideas flow in more descriptive terms, if expression did not meet requirement is eliminated. Thematic labels were applied to the invariant constituents.

### 3.3 Data Clustering

In clustering data, related responses were grouped into major themes. Clustering was performed with the help of information gathered from 8 participants. The information gathered were analyzed and assembled into similar categories. The emerging themes from the analysis represented various dimensions of the phenomena from participants' responses.

### 3.4 Individual Textual Description

Participants' responses were interpreted through textual analysis. Structural descriptions were

constructed, based on individual textual descriptions, by incorporating invariant constituents and themes. In line with the suggestion by Priest (2002), composite description of meanings and essences of experience for the entire group were developed in the current study. The intent of the interview was to understand the factors that contribute to the credit supply constraint from microfinance bank, responses followed textual descriptions.

### 3.5 Validation

According to Priest (2002), validation is "checking invariant constituents and their theme against the complete record of the research participants for explicit expression and compatibility". The NVivo 8 software was used in interpreting the text from the responses in a consistent manner to maintain the validity of the data.

## 4. Result

Participants' response on credit constraints provided four sub-themes, first is transaction cost constraint, internal constraint, socio-cultural constraint and environmental policy constraint. The term credit constraint describes factors that prevent individuals to access credit from financial institutions, perhaps due to certain characteristics and issues related to lenders' decision. The paper discussed these issues in relation to the theory of credit supply-side constrains. Experience of participants on credit constraints is a broad term which emerged after merging some relevant themes. The themes clustered and formed comprehensive themes as presented in Figure 4.1.

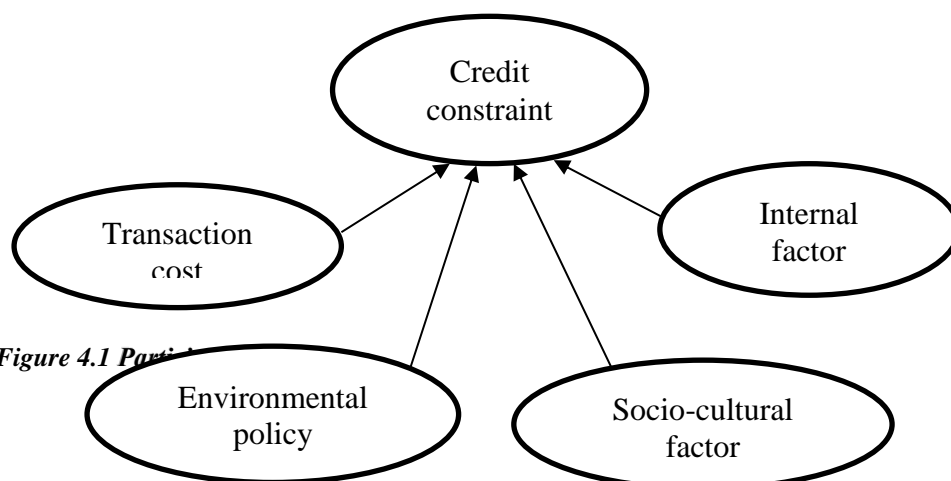


Figure 4.1 Part 1



## 5. Discussion

This paper identified four factors that constrain small scale enterprises from accessing credit for business growth and expansion in the study area. In discussing the result, P1 – P8 were used as anonymity to hide participants' identity as stated in the consent letter.

### 5.1 Transaction costs constrain

In attempt to capture information about transaction cost and how it constrains credit lending, about 6 participants (P1, P3, P4, P5, P7 and P8) made reference to difficulties bank encounters when seeking for information about borrower's financial history. This information normally reduces riskiness of repayment default and influences lending decision. However, in the concept of Shamshubaridah (2005) in his study of "Loan disbursement status among SMEs in SME Bank Bhd." also confirmed that, making credit available to small borrowers is not without cost and also lending to various sectors makes credit more challenging and problematic for banks. Information about borrower and his business is imperative before transaction takes place but normally such information is not obtainable on time, forcing credit officers to maintain relationship with borrower in order to get information about him. This effort is translated into costlier process that increases the transaction costs and hence constraining lending. Another constraint in the context of lending is processing and disbursement procedures. Very often, small size credit applicants are higher compared to bigger size credit applicants. Therefore, processing and disbursing loans is very tedious because it takes time to verify the applications usually more than 90 days for small and medium size loans to be processed and approved (Shamshubaridah & Berma, 2006). All these are constraints identified with borrowers as explained the participants in the study area.

### 5.2 Internal Constraints

Internal constraint is a factor talking about the attitude of individuals to seek for external credit from financial institutions including the MFBs (Katwalo & Madichie, 2008; Madichie, 2009; Mordi et al., 2010). In responding to this factor, 3 participants (P1, P2 and P5) described the attitudes of individuals to apply for credit from formal institutions as first choice for credit source to finance their business but prefer other sources of finance such as borrowing from friends/family or resorting to own savings than financial institution. This raised question of whether they have understanding of the credit benefits and how

proactively they should seek for the loans for their business expansion. The participants also lamented that small borrower appeared to be reluctant about expanding their business due to lack of confidence in the riskier steps required in growing the business or support from financial institutions simply because they don't want to lose the few existing assets they have in the event of repayment default. This ascribes why these enterprises are constrained from credit access because they don't want to present collateral as requirement for credit advancement as explained by participants.

### 5.3 Socio-Cultural constraints

Generally, small entrepreneurs are not receiving attention from the public as recognition and media focus are increasingly shifted in favour of industrialized and emerging economies (Zewde and Associates, 2002). Collaborating this with participant's response, the study revealed that small borrowers believed that dealing with conventional banking is religiously unethical because of interest rate and as such most of them don't borrow. About 7 participants (P1, P3, P4, P5, P6, P7 and P8) were in the opinion that socio-culture belief of individuals constrain them from credit access. Another issue regarding this is the social roles that continue to ascribe small loan borrowing especially for female borrowers. Female are considered to be responsible for household tasks and the raising of children. These subjugate them into thinking that business is for men and they don't think of venturing into businesses. This is line with "too busy to train" theory expressed by Walker et al., (2007) in the context of SMEs generally. This negative attitudes and belief about financial institutions play a role in constraining credit supply to many female entrepreneurs and deterring many from considering business ownership as an option and discouraged them to actively pursue such an option.

### 5.4 Environmental Policy Constraints

This refers to policies that are hostile to the environment within the ambit of public policy such as poor financing, physical and regulatory infrastructure, high interest rates and unfriendly atmosphere of formal banking institutions in the economy. All participants (P1 – P8) responded same on this issue that "No matter the accessibility of any type of credit to small borrower, if operating environment is not conducive for him to flourish, the borrower will be reluctant to access that credit". In this context, operating environment for small scale enterprises in Nigeria, Kano state in particular, has been unsupportive and neglected in certain respects as a result of policy failures



(Fajana 2008; Obamuyi, 2009). In this concept, regulatory framework within which banks operate is another construct to help understand how policy becomes an issue in favoring few borrowers rather than the entire targeted borrowers. In the words of participants, bribery and corruption make the environment unconducive for credit to flourish to small borrowers in the study area.

## 6. Practical Implications

Theory of supply-side constraint is suitable in explaining factors that prevent small borrowers to access credit from financial institutions and preventing the economy to produce and supply more goods to market. Effective policies on operating environment are needed to stimulate enterprises' demand for external finance thus enhancing their global and domestic markets participation and competitiveness (UNCTAD, 2000; Fulgencio, 2009; Chandra & Kolavalli, 2006; Rogers & Pontius, 2009). In addition, socio-cultural belief and high cost of transaction have undermined their sustainability of external financing for business growth, so policy makers and stakeholders efforts need to gear towards leveraging and mainstreaming initiatives for maximum inclusion of these enterprises (Gelb et al. 2007; Rogers & Pontius, 2009). Moreover, ability to address this issue will further provide more people with income and employment and will benefit the economy at large. Because the sector has witnessed a substantial increase for two reasons; one goods and services it produces are cheap and accessible to many people, and two it accommodates large number of people who migrate from rural areas to the urban in charge better living. Therefore, neglecting this sector may result in increased social vices and massive unemployment (SMEDAN, 2012).

## 7. Policy Recommendations

Government should review existing policies to ensure smooth and sound operating environment

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through provision of good roads, electricity and telecommunication for effective banking services to reach those individual firms operating in remote villages. It should encourage mobile banking to ease difficulties of such small firms in their locality which will eventually reduce high transaction cost of lending. Moreover, a program should be designed to mobilize borrowers especially the females about the importance of credit lending for the start and expansion of business. Orientation and seminar programs should be organized at regular interval to change people perception and attitudes about financial institutions thus reducing financial challenges facing small businesses and improving their performance regarding productivity and growth as a whole.

## 8. Conclusion

The intent of this paper was to understand factors that constrain small scale borrowers to access credit through an interview with experts selected from MFBs in Kano state. In the process, four constraints were identified; transaction cost constraint, internal constraint, socio-cultural constraint and environmental policy constraint. Majority of the participants interviewed were in the view that inappropriate policies are responsible for this constrain leading to high transaction cost and environmental policy, while few participants believed that internal factor and socio-cultural issue are responsible for the constraint. Participants' views were supported by some theories. Based on the findings, the study contextualized these issues with the phenomenon under study. However, recommendations of this study could be implemented to address the problems so as to improve credit demand and supply through increased market participation. It can be concluded that both internal as well as external factors influence credit supply constraints and a greater fraction of these is socio-economic in nature.





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